

### Weekly Market Update

For the week ended October 6, 2006

US Stocks	
Weekly Index Performance	
DJIA:	11850.21 (+171.14, +1.5%)
S&P 500:	1349.58 (+13.73, +1.0%)
S&P MidCap:	764.10 (+9.85, +1.3%)
S&P SmallCap:	377.37 (+5.59, +1.5%)
Nasdaq Comp:	2299.99 (+41.56, +1.8%)
Russell 2000:	739.81 (+14.22, +2.0%)
Market Indicators	
Strong Sectors:	Industrials, Retail, Travel & Leisure, Internet
Weak Sectors:	Energy, Health Care, Utilities
NYSE Advance/Decline:	2,389 / 1,148
NYSE New Highs/New Lows:	507 / 97
AAll Bulls/Bears:	37.8% / 46.7%

US stocks rose smartly as investors warmed to the possibility of a fourth-quarter rally fuelled by falling crude oil prices and lower interest rates. The DJIA finally surpassed its all-time closing high from January 2000 on Tuesday, and the index widened the gap with a 123-point advance Wednesday. The week's economic news included a mixed employment report for September and some hawkish comments on the housing market from Fed officials. Crude oil prices fell to end the week at \$59.76/bbl on growing speculation OPEC is considering cutting production by 1 million barrels per day. Retail chain-store sales last month were generally strong, indicating resilient consumer behavior. Only **Wal-Mart** showed real weakness, the company posting rather anemic same-store sales growth. Sales at **Kohl's**, **JC Penney** and **Federated** as well as at specialty retailers **Abercrombie & Fitch** and **American Eagle Outfitters** impressed. **General Motors** shares shed 6.6% after the company ended discussions about an alliance with **Nissan** and a key director resigned from the board. In merger news, **Gilead Sciences** agreed to acquire **Myogen** for \$2.5 billion and **Harrah's Entertainment** received an offer to be taken private worth \$15.1 billion. **Google** is reportedly in discussions to buy **YouTube** for \$1.6 billion. Rumors concerning a deal lifted Google shares 2.1% on Friday. Looking ahead, earnings season gets underway this week with **Alcoa** reporting results Tuesday. With corporate profitability in outstanding shape at present, investors may soon start to worry about sustainability given a slowing economy. Stocks may be particularly sensitive to company guidance in the weeks ahead.

<b>US Economy and Credit Markets</b>	
<b>Yields and Weekly Changes:</b>	
<b>3 Mo. T-Bill:</b>	4.93% (+06 bps)
<b>6 Mo. T-Bill:</b>	5.03% (+04 bps)
<b>2 Yr. T-Note:</b>	4.73% (+05 bps)
<b>3 Yr. T-Note:</b>	4.67% (+06 bps)
<b>5 Yr. T-Note:</b>	4.64% (+06 bps)
<b>10 Yr. T-Note:</b>	4.69% (+06 bps)
<b>30 Yr. T-Bond:</b>	4.83% (+07 bps)
<b>GNMA (30 Yr) 8% Coupon:</b>	105-14/32 (6.27%)
<b>Duration:</b>	3.19 years
<b>30 Year Insured Revs:</b>	88.4% of 30 Yr. T-Bond
<b>Bond Buyer 40 Yield:</b>	4.72% (+04 bps)
<b>Goldman Sachs Commodity Index:</b>	5789.77 (-103.08)
<b>Merrill Lynch High Yield Indices:</b>	
<b>BB, 7-10 Yr.</b>	7.37% (-02 bps)
<b>B, 7-10 Yr.</b>	8.30% (-05 bps)

The largest one day decline in prices since June sent Treasury securities into negative territory for the week as the Labor Department's September employment report showed a drop in the unemployment rate. While the increase in nonfarm payrolls of 51,000 was less than half of the consensus forecast, payrolls for July and August were revised upward by a total of 62,000 and the unemployment rate fell to 4.6%, below the expected level of 4.7%. On the whole, those numbers decrease the likelihood of a Fed interest rate cut in the near future. Other news from the economy that moved prices for the week included an unexpectedly large decline in the ISM manufacturing index which pushed prices higher on Monday and Wednesday's ISM non-manufacturing index, which showed an unforeseen drop, sparking a rally for longer-maturity Treasuries. Economic reports (and related consensus forecasts) for the coming week include: Tuesday: August Wholesale Inventories (0.7%) and September Budget Statement (\$47.5 billion); Thursday: August Trade Balance (-\$66.7 billion), Initial Jobless Claims (312,000), and Fed's Beige Book; and Friday: September Import Price Index (-1.5%), September Advance Retail Sales (0.2%, less Autos 0.0%), Preliminary October U of Michigan Consumer Confidence (86.3), and August Business Inventories (0.5%).

**Source: Bloomberg and Barron's**